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SENSITIVE

STATE FOR EB/TPP/BTA/ANA
COMMERCE FOR DAS JOE PETRINI

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SUBJECT: ITALIAN VIEWS ON OECD STEEL SUBSIDIES DISCUSSIONS

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¶1. (U) This is an action request. See para. 7.

¶2. (SBU) During its EU Presidency the GOI is hoping for progress towards an agreement on steel subsidies among major steel-producing countries, as currently being worked by the High Level Group (HLG) under the auspices of the OECD. However, Ministry of Productive Activities official Giuseppe Lorenzini, who is chairing the EU's Article 133 subgroup on steel issues during the Italian EU presidency, told econoff September 15 that Italy was disappointed at the reported lack of progress made on both Articles 3 and 4 of the draft Steel Subsidies Agreement during the informal meeting of the OECD Steel Disciplines Study Group in Moscow in early September. The results of the Moscow meeting, and the October 6-8 meeting of the next formal OECD meeting on steel subsidies, is on the agenda of the Sept. 18 EU Article 133 steel subgroup meeting.

¶3. (SBU) Though Italy did not attend the Moscow meeting, Lorenzini said the GOI is especially concerned about demands by China raised in Moscow that have the potential to derail the steel subsidies discussions. Lorenzini gave us a copy of the Sept. 5 letter from the OECD's Wolfgang Huber to HLG participants that relayed China's "serious doubts" regarding the current efforts to craft an agreement on steel subsidies. The letter provides China's requests to the other HLG participants in order to maintain its continued participation in the talks: recognition of China's "market economy status" in terms of the Chinese steel industry; a guarantee that no transitional product-specific safeguard mechanisms will be taken against Chinese steel products; recognition under an eventual agreement that China is a developing country; and that the eventual agreement not be brought into the WTO framework.

4.(SBU) The GOI believes that acceding to all of China's demands will be difficult. Lorenzini noted that even in the unlikely event that the other HLG participants were to accede to China's request, other countries participating in the talks might then seek similar conditions as well, further undermining any agreement. The GOI is concerned that China's requests go too far, but it is also worried that a Chinese pullout from the discussions would seriously weaken the effectiveness of any potential agreement. Lorenzini told us he raised Italian concerns with a diplomat from the PRC Embassy in Rome. Though apparently not very familiar with the issue, the Chinese diplomat gave Lorenzini the impression that China remains skeptical of the entire approach on steel subsidies being pursued through the OECD talks.

¶5. (SBU) Lorenzini said that Italy would not agree to a weak accord that fails to recognize the progress made in countries like Italy, which he noted had worked hard to create a more modern and competitive steel sector. He cautioned against an agreement providing too many concessions to developing country participants. The Italian steel industry is particularly concerned that the current level of steel exports from China could turn into a flood if a slowdown in China's economic growth were to inhibit the growth of domestic steel demand.

6.(SBU) Given the number of smaller-scale steel producers in Italy, the GOI is particularly attuned to the eventual wording of Article 3 regarding excepted subsidies, according to Lorenzini. Italy will pay close attention to defining the circumstances under which such subsidies could be applied.

¶7. (SBU) Action Request: Lorenzini said the GOI is keenly

interested in current USG views on the state of play on the steel subsidies talks, particularly in advance of the October HLG meeting. The GOI would welcome U.S. views on the four conditions sought by China to maintain its participation in the talks, and the extent to which a pullout by China would impede the effectiveness of an eventual subsidies agreement.
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